

January 21, 1998

MEMORANDUM

FOR: USAID/Bolivia Director, Frank Almaguer

FROM: RIG/A/San Salvador, Wayne J. Watson

SUBJECT: Audit of USAID/Bolivia's Role in Obtaining Audits of Contracts, Grants, and Cooperative Agreements for Argentina, Bolivia, Brazil, Chile, Paraguay, and Uruguay; Audit Report No. 1-511-98-002-P

This memorandum is our report on the subject audit. In finalizing this report, we considered your comments on the draft audit report and included them in their entirety as Appendix II. The report contains no recommendations for action by your office.

I appreciate the cooperation and courtesy provided to my staff during this assignment.

Background

In recent years, USAID management has taken a more active role in using audit as a means to ensure that USAID funds provided to recipients (contractors and grantees) are properly accounted for and used for the purposes intended in accordance with applicable laws and regulations. In April 1992, USAID established an audit management program to improve management control, direction, and accountability over audit responsibilities. Specifically, USAID missions were required to:

- establish a management control review committee (MCRC) to address all management control issues, including audit, at the mission level;
- issue mission-specific operational guidance on audit management responsibilities and procedures;
- designate an audit management officer to manage the overall audit program at the mission level;

- establish an audit inventory database of all contracts, grants, and cooperative agreements which may require an audit; and
- develop an annual audit plan to help assure complete audit coverage of all non-U.S. contracts, grants, and cooperative agreements.

In May 1996, USAID consolidated its policies and procedures for planning, implementing, and responding to financial audits of USAID-funded contractors, grantees, and host government recipients in Chapter 591 of the Automated Directives System (ADS). These requirements and USAID responsibilities for ensuring that audits are performed are summarized below.¹

U.S. non-profit organizations receiving \$25,000 or more in USAID funds in any one year (under grants, cooperative agreements, or contracts) shall have periodic audits performed in accordance with Office of Management and Budget Circular A-133. These audits will normally be performed annually, but must be performed no less frequently than every two years. The Office of Procurement in USAID/Washington is responsible for assuring that USAID funds provided to these organizations are audited.

U.S. for-profit firms receiving USAID funds under direct contracts, grants, or cooperative agreements (or cost-reimbursable host country contracts or subcontracts over \$250,000) will have annual audits performed. The Office of Procurement in USAID/Washington has principal responsibility for assuring that USAID funds provided to these firms are audited.

Foreign private for-profit and non-profit organizations receiving \$100,000 or more in direct USAID funds per year will have an annual audit performed. USAID overseas missions are responsible for assuring that these audits are done.

Foreign government agencies receiving \$25,000 or more in direct USAID funds per year will have an annual audit performed. USAID overseas missions are responsible for assuring that these audits are done.

International organizations receiving USAID funds may have audit requirements dependent on grant provisions.

¹ Subsequent to the period under audit, USAID/General Notice entitled *Financial Audits of USAID Contractors, Grantees and Host Government Recipients*, dated September 26, 1997, increased the audit threshold for foreign for-profit and non-profit organizations and host government entities to \$300,000 effective January 1, 1997.

USAID/Bolivia provides regional financial management, including accounting and audit management support, for USAID-funded contracts, grants, and cooperative agreements in Argentina, Bolivia, Brazil, Chile, Paraguay, and Uruguay. For the period January 1, 1993 through September 30, 1995, USAID/Bolivia disbursements under these activities totalled \$326.6 million to U.S., non-U.S., and international organizations.² Following is a summary of these disbursements by category of recipient organization.

	<i>(millions)</i>
U.S. organizations (USAID/Washington audit responsibility)	\$141.2
Non-U.S. organizations (USAID/Bolivia audit responsibility)	177.0
International organizations (audit status dependent on grant terms)	<u>8.4</u>
Total	<u><u>\$326.6</u></u>

The table below shows the composition of the \$177.0 million disbursed to non-U.S. organizations by USAID/Bolivia during the period January 1, 1993 through September 30, 1995.

	<i>(millions)</i>
Subject to audit requirements (USAID/Bolivia responsibility)	\$ 70.1
Not subject to USAID audit requirements or not included in our audit scope	93.1
Audits due after October 31, 1996 or other periods	<u>13.8</u>
Total	<u><u>\$177.0</u></u>

Details of the \$93.1 million of disbursements which were not subject to USAID audit requirements or not included in our audit scope are as follows:

² The disbursement amount is based on unaudited data derived from USAID/Bolivia's Mission Accounting and Control System (MACS) and other program records for Argentina, Bolivia, Brazil, Chile, Paraguay, and Uruguay.

	<i>(millions)</i>
Personal and other service contracts	\$10.2
Dollar cash transfers	70.1
Expenses incurred under purchase orders, travel authorizations, leases, participant training, and letters of commitment	10.1
Disbursements below the dollar thresholds established by USAID directives on financial audit	2.6
Miscellaneous	<u>.1</u>
Total	<u><u>\$93.1</u></u>

Audit Objective

As part of a worldwide audit, the Office of the Regional Inspector General/San Salvador audited USAID/Bolivia's audit management program to answer the following objective:

- Has USAID/Bolivia carried out its role in obtaining audits of its contracts, grants, and cooperative agreements for Argentina, Bolivia, Brazil, Chile, Paraguay, and Uruguay?

Appendix I discusses in detail the audit scope and methodology.

Audit Findings

Has USAID/Bolivia carried out its role in obtaining audits of its contracts, grants, and cooperative agreements for Argentina, Bolivia, Brazil, Chile, Paraguay, and Uruguay?

USAID/Bolivia generally carried out its role in obtaining audits of contracts, grants, and cooperative agreements for its overseas recipients, as required by USAID directives; however, it needed to improve monitoring procedures related to audits of its U.S.-based recipients.

USAID/Bolivia's audit management program is to be implemented in accordance with

USAID regulations, procedures, and guidance. These include ADS Chapter 591, entitled *Financial Audits of USAID Contractors, Grantees and Host Government Recipients* and the Office of Inspector General's *Guidelines for Financial Audits Contracted by Foreign Recipients*. Key provisions of these requirements cover policies and procedures for planning, implementing, and responding to financial audits of USAID-funded contractors, grantees, and host government recipients.

Disbursements of \$70.1 million, for which USAID/Bolivia had principal audit responsibility, were made to a total of 39 non-U.S. organizations during the period January 1, 1993 through September 30, 1995. For those 39 recipients, 68 annual audits were required and performed as of October 31, 1996 covering the \$70.1 million in disbursements.

For fiscal year 1996, USAID/Bolivia established an annual audit plan comprising 30 financial audits of USAID funding provided to local recipients. These included 21 recipients in Bolivia, four in Chile, and five in Paraguay. In addition, the Mission planned ten financial reviews (seven in Brazil and three in Chile) to ensure accountability for awards not meeting the established audit thresholds. No audits were required to be performed for Argentina and Uruguay during fiscal year 1996. In managing this program, USAID/Bolivia:

- developed and maintained an accurate audit inventory database for its non-U.S. based recipients and established a system to monitor the status of ongoing audits;
- included appropriate audit clauses and provided for funding of audits in its agreements with non-U.S. based entities;
- assured that audits of its non-U.S. based recipients were performed in accordance with timeliness and frequency requirements, and presented in compliance with Office of Inspector General guidelines; and
- designated an audit management officer to manage the Mission's financial audit program.

However, as discussed below, USAID/Bolivia needed to improve monitoring procedures related to audits of its U.S.-based recipients.

USAID/Bolivia Needed to Establish an Audit Inventory of its U.S.-Based Recipients

ADS Chapter 591 requires overseas missions to (i) include all U.S.-based contractors and grantees in their audit inventories and (ii) confirm that these organizations are included in the U.S. audit plan managed by USAID's Office of Procurement in Washington. USAID/Bolivia did not implement these procedures because officials misinterpreted

USAID guidance and believed that the Office of Procurement assured audit coverage of these recipients. As a result, there was some risk that one or more of the Mission's U.S.-based recipients could have been excluded from the Office of Procurement's audit plan, leading to gaps in audit coverage and a lack of accountability over this USAID funding.

Our tests showed that the Mission's U.S.-based recipients were, in fact, properly included in the Office of Procurement's audit plan. The Mission also recently established the required database of its U.S.-based recipients, developed procedures and assigned monitoring responsibilities to its financial management staff. We are therefore not recommending further action in this report.

Management Comments and Our Evaluation

USAID/Bolivia generally agreed with the findings and conclusions contained in this report. In responding to our draft audit report, they provided evidence that two additional required audits had been completed, and this change was incorporated in the final audit report.

SCOPE AND METHODOLOGY

Scope

The Office of the Regional Inspector General in El Salvador audited USAID/Bolivia's audit management program in accordance with generally accepted government auditing standards. The audit was conducted at the offices of USAID/Bolivia from October 8, 1996 through January 29, 1997, covering USAID/Bolivia's audit management program for active contracts, grants, and cooperative agreements in Argentina, Bolivia, Brazil, Chile, Paraguay, and Uruguay, for which Mission accounting records show \$177.0 million of disbursements to non-U.S. organizations during the period January 1, 1993 through September 30, 1995. Disbursements of \$70.1 million, for which USAID/Bolivia had principal audit responsibility, were made to a total of 39 non-U.S. organizations during that period, requiring 68 annual audits as of October 31, 1996.

Our audit included an overall assessment of USAID/Bolivia's internal controls over the financial audit process and the recipient-contracted audit program. Specifically, we assessed whether USAID/Bolivia (i) established guidance and direction for its audit management program, (ii) included appropriate audit clauses and funding for audits in its awards to overseas entities, (iii) maintained an accurate audit universe, (iv) completed audits in accordance with timeliness and frequency requirements, and (v) presented audit reports in compliance with applicable professional standards and Office of Inspector General guidelines. The audit included USAID/Bolivia's awards under Handbooks 3 and 13, as well as P.L. 480 Title II and III agreements, as applicable, for Argentina, Bolivia, Brazil, Chile, Paraguay, and Uruguay. The audit did not cover cash transfer programs or audit requirements of local currencies generated under commodity import programs and sector assistance.

Methodology

Our audit objective was to determine if USAID/Bolivia carried out its role in obtaining audits of contracts, grants, and cooperative agreements for Argentina, Bolivia, Brazil, Chile, Paraguay, and Uruguay. In answering this objective, we interviewed officials at USAID/Bolivia to obtain an understanding of their audit management program and reviewed applicable USAID guidance and procedures. We then examined documentation of USAID/Bolivia's audit management program, including the audit inventory database,

audit recommendation tracking system, financial audit reports, related correspondence and project files. We also assessed USAID/Bolivia's internal controls over the financial audit process and performed the following audit procedures:


- reviewed USAID/Bolivia's local operational guidance to assess the design of audit management procedures and responsibilities;
- verified the accuracy and completeness of USAID/Bolivia's audit inventory database by tracing selected data to source documents, such as agreements and accounting records;
- ensured that USAID/Bolivia developed an annual audit plan for fiscal year 1997;
- tested a judgmentally selected sample of 14 contracts, grants and cooperative agreements to determine whether appropriate audit clauses and funding for audits were included in the agreements;
- reviewed a judgmentally selected sample of 11 audit reports and related correspondence to determine whether audits were performed in accordance with standards, guidelines, timeliness and frequency requirements;
- reviewed MACS disbursement reports for the period January 1, 1993 through September 30, 1995 to identify disbursements made to U.S., non-U.S. and international organizations;
- identified the number of non-U.S. organizations and total USAID funding levels for those organizations receiving sufficient funds to require audit during the period January 1, 1993 through September 30, 1995, as well as the number of audit reports due as of October 31, 1996; and
- verified the accuracy of the amount of USAID disbursements audited for a judgmentally selected sample of 28 audit reports.

In carrying out these audit procedures, we established a five percent error rate for the attributes tested as our materiality threshold for reporting exceptions and non-compliance with USAID procedures. Also, for purposes of this audit, we interpreted USAID guidance which requires audits of recipients that receive \$100,000 or more per year as the recipient's fiscal year, which was generally a calendar year. In addition, we obtained written representations from management on key management assertions related to our audit objective.

UNITED STATES GOVERNMENT
memorandum

FMO/98-024

DATE: January 15, 1998

REPLY TO: 

ATTN OF: Frank Almaguer, Director USAID/Bolivia

SUBJECT: Audit of USAID/Bolivia's Role in Obtaining Audits of Contracts, Grants, and Cooperative Agreements for Argentina, Bolivia, Brazil, Chile, Paraguay, and Uruguay

TO: RIG/A/San Salvador, Wayne J. Watson

USAID/Bolivia appreciates the role played by RIG/A auditors in reviewing audit management and resolution of audit findings at USAID/Bolivia and supported USAID Missions in neighboring countries. Feedback from the auditors has enabled us to strengthen the role played by our Management Control Review Committee (MCRC) in ways that will ensure continuous monitoring and self assessment of our audit program accountability.

Although the auditors were able to confirm that the Mission's audit management and review program was generally being implemented in accordance with Agency prescribed guidance, their review of accounting records and audit inventories disclosed that required audits were not on file for two non-U.S. organizations, CERES (Uruguay) and Fundacion de Ley (Argentina). This finding led to audit Recommendation No. 1 which states "We recommend that USAID/Bolivia ensure the required audit coverage of USAID funding to CERES and Fundacion de Ley."

USAID has since been able to confirm that audits covering the periods identified were actually performed for both of the organizations listed. Copies of these audits are included as an attachment to this memorandum and are being forwarded for your review. The audit in question for CERES (Uruguay) was on file in our Financial Management Office and should have been available for the auditors review. Although the Fundacion la Ley audit was performed as required, USAID/Bolivia did not have a copy of this audit on file. We acknowledge that this may reflect a lapse in communication or follow-up with our client Mission at the time of the audit. However, we wish to point out that the breach occurred during a time when the Uruguay Mission was in the process of terminating operations, and

USAID/Bolivia was in the process of hiring a new financial analyst to manage its audit program. We are confident that our current systems would not allow a lapse of this nature to reoccur.

Since the required audit coverage was obtained, and systems are currently in place to ensure proper audit follow-up and reporting, USAID/Bolivia requests that the above recommendation be removed from the audit report. Again we thank you for the assistance provided in strengthening our AMRP.

cc: LAC/FM FCaropreso